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# From stock to strategic advantage: Inventory management's changing role in retail profitability



# How retailers can rethink their inventory management strategy and power profitability by connecting data, aligning operations, and leveraging AI

In retail today, profitability no longer hinges solely on product quality or brand strength. Instead, it's increasingly determined by a retailer's inventory management strategy. Inventory is no longer a static stockpile of goods; it has been upgraded into a dynamic, data-driven enabler for business growth. Every decision related to inventory — from product placement to stock levels — can directly affect margins, customer satisfaction, and financial efficiency.

In an environment characterized by rising costs, tariff uncertainties, and evolving consumer expectations, a reactive planning approach is no longer sufficient. This is especially true with the rise of omnichannel shopping and a new generation of consumers, including Generation Z, who expect instant access to information at the click of a button. This makes a seamless inventory experience crucial for a retailer to stay in control.

Yet many retailers still operate in reactive mode, hampered by fragmented systems, siloed planning, and a lack of visibility into their true cost to serve. They struggle to align sourcing, pricing, and inventory with financial objectives. And they're constrained by legacy processes and disconnected teams, often leaving them unable to pivot as conditions evolve.

It's time for retailers to rethink inventory management — not just as a logistical function but as a strategic capability that can drive growth, help boost margins, and support customer loyalty. By leveraging the power of technology, including AI, retailers can modernize their approach, turning inventory from a liability into a powerful asset.



**We've always said that the most important thing is getting the right inventory to the right place at the right time — that has not changed at all. But now we have the data and tools to make better, more informed decisions and drive better insights. The question is now: 'How do you leverage that data and technology to improve inventory placement and, therefore, profitability?'**

**Michael Unger**

Retail Transformation Leader  
Advisory Managing Director  
KPMG in the US



# Why now? Five forces reshaping retail inventory strategies

Retailers have historically demonstrated an exceptional ability to manage complexity. They've built robust merchandising operations, coordinated vast supplier networks, and responded to changing consumer demands with creativity and speed. However, the current retail environment is severely testing these long-standing strengths. KPMG and Oracle have identified five core forces driving this shift, which necessitates a smarter, more connected approach to inventory management.

## 1. Increasing complexity and volatility.

The retail sector faces unprecedented volatility driven by geopolitical shifts, economic uncertainty, and rapid changes in consumer behavior. Supply chains are becoming more intricate than ever, extending across continents and involving numerous intermediaries. Many companies are finding that their traditional, linear planning models are fast becoming obsolete — they need real-time data and responsive decisionmaking capabilities. Without integrated systems, retailers often struggle with accurate forecasting, leading to overstocking or stockouts.

## 2. Evolving customer expectations.

Consumers expect seamless, rapid, and personalized experiences across all channels. This translates into demands for immediate availability, diverse fulfillment options (such as buy online, pick up in-store, or ship from store), and hassle-free returns. Meeting these expectations can put immense pressure on inventory systems to be highly responsive and accurate. Technologies such as Oracle Retail Order Management Suite allow for real-time orchestration and fulfillment, which can lead to an enhanced customer experience and strong brand loyalty.

## 3. Emphasis on margins and profitability.

Sustained profitability has emerged as a key metric for retail success. This means that retailers need a granular understanding of the true cost to serve for every product, channel, and customer interaction. Costs associated with sourcing, tariffs, fulfillment, labor, and inventory carrying directly affect their margins. Retailers need to move beyond cost-cutting to strategic cost optimization so that inventory investments align directly with their financial resilience and profitability goals. Software that uses data to forecast the impact on margins and sell-through include Oracle Retail Merchandising Cloud Services Suite, Oracle Retail Promotion Engine Cloud Service, and Oracle Retail Clearance Optimization Engine.

## 4. The emergence of AI opportunities.

Retailers are awash in data: point-of-sale transaction and supply chain logistics data, information on customer browsing behavior and social media sentiment, and so on. The challenge is to convert this data into actionable insights. AI and AI agents offer retailers the capability to process vast data sets, identify complex patterns, and generate more accurate forecasts. With AI-driven forecasting, retailers can optimize inventory placement so that products are stocked in the most cost-effective locations. Automating allocations and replenishment, with AI-driven demand forecasting through software such as Oracle Retail Merchandising Cloud Services Suite, can support more proactive decisionmaking. Furthermore, targeted promotions based on a customer's purchase history and browsing behavior — leveraging AI- and machine learning-supported software, including Oracle Retail Customer Engagement — can further personalize a customer's shopping experience.

## 5. The increasing unworkability of siloed systems and fragmented data.

Many retailers still operate with disconnected systems and data silos across merchandising, supply chain, and finance functions. This fragmentation prevents these companies from gaining a holistic, real-time view of their inventory and its true costs. Without a unified view, retailers face challenges of forecasting accurately, optimizing placement, and understanding end-to-end profitability across channels. Connecting systems can improve a retailer's bottom line and improve the customer experience — for example, letting a store workforce use Oracle Retail Point of Sale devices to interact with customers in real time on available inventory and process immediate invoices, without the customer having to wait in line.



**Data availability and management is a prerequisite for opening the door to innovation — to keep customers at the center so that we're helping retailers not only expand their customers' participation but also retain those customers."**

**Amanda Woodly**

Senior Product Strategy Director,  
Retail Planning and Analytics,  
Oracle

## What's next?

These five trends represent a new landscape for retailers. Addressing them will require a major shift in thinking, especially because retailers must do so in real time. As these critical forces suggest, the answer can be found by leveraging advanced technology, particularly in rethinking how front-end and back-end systems integrate and work together, and in choosing an experienced technology and transformation partner for the journey.

## What the next era of inventory management looks like

To stay competitive, retailers should evolve from static planning and siloed systems to a model that's integrated, intelligent, and financially aware. A forward-thinking approach to inventory is

- Connected across the enterprise, linking data and decision-making from finance to fulfillment
- Powered by data science, using AI and machine learning to create highly automated predictive and forecasting models that can account for consumer trends, geopolitical events, and many other factors
- Responsive by design, capable of adapting to disruption and shifting demand signals in real time
- Rooted in profitability, factoring in the full cost to serve — not just product or shipping costs — while also considering environmental impacts

The transformation that retailers would benefit from involves more than just upgrading tools. It's about rethinking inventory management as a cross functional, value-driving capability that supports the development of new business models. The next era of inventory will also focus on

- Circular inventory models: With the rise of conscious consumerism, especially among Gen Z, new models such as recommerce, rentals, and exchanges are coming to the forefront, driven by a desire for sustainability and a lower environmental footprint.

- Inventory-led experiences: Using AI, retailers can curate personalized in-store assortments and offer automated product recommendations based on real-time stock availability. This creates a tailored experience for customers so that they find what they want and enjoy their time in the store.



**Inventory is evolving from a static cost center to a strategic data-driven asset, enabling retailers to respond in real time, optimize margins, and deliver seamless customer-centric experiences across channels. At KPMG, we help retailers achieve this by integrating Oracle's advanced analytics and cloud platforms to unlock true inventory intelligence and drive profitability."**

**Puneet Mansukhani**

National Sector Head Retail and  
Head of Global Retail — Digital and  
Technology Transformation,  
KPMG in India

# Best practices for inventory-driven performance

Leading retailers are investing not just in technology but in capabilities and process design that realign inventory with broader performance goals. KPMG and Oracle have identified some key best practices to support this shift.

- 1. Connect financial and operational planning.** A significant challenge for retailers is the disconnect between financial goals and operational execution. Retailers should integrate finance, operations, and supply chain data so they can uncover hidden costs that directly affect their margins. By connecting product, pricing, and inventory decisions with overall business performance, retailers can align every operational choice with their financial objectives.
- 2. Leverage AI-driven forecasting and optimization.** AI-driven forecasting goes beyond historical trends to incorporate a multitude of factors — such as weather patterns, social media sentiment, local events, and competitor actions — in predicting demand with far greater accuracy. This lets retailers optimize their inventory placement so that the right products are in the right locations at the right time. AI can help identify nuanced demand signals that human analysts might miss, leading to more precise inventory allocation and improved margins.
- 3. Cultivate a responsive and collaborative planning culture.** Retail organizations should foster a culture of responsiveness and crossfunctional collaboration. This means breaking down departmental silos and ensuring that merchandising, supply chain, finance, and marketing teams are aligned on key performance indicators (KPIs). A responsive planning approach can let retailers quickly take action on unforeseen disruptions or opportunities, adapting their inventory strategies in real time.
- 4. Prioritize data cleanliness, quality, and accessibility.** The foundation of any successful inventory transformation, especially one powered by AI and integrated systems, can be found in the quality and accessibility of data.

Retailers should actively engage in data cleaning, identify missing data points, and establish processes for consistent data collection. With high-quality data, technology — particularly AI and reporting tools — can function optimally, providing reliable insights and driving effective decision-making across the enterprise.

## Case study:

### Optimizing inventory for a leading jewelry retailer

A prominent jewelry retailer sought to optimize its stock levels and reduce associated carrying costs in the wake of the COVID-19 pandemic. Leveraging advanced analytic and AI software from Oracle and KPMG, the retailer implemented sophisticated store clustering and product prioritization strategies. By intelligently grading both store locations and product assortments, the retailer could more precisely target its inventory management efforts. This initiative resulted in more than 150,000 recommendations for minimum presentation improvements, with a 95 percent acceptance rate by the retailer's teams. Ultimately, this strategic approach led the retailer to reduce out-of-stocks by 50 percent, highlighting the compelling topline impact that can be achieved by leveraging AI to unlock granular insights and drive significant results.

# The path forward: From reactive to predictive retail

Retailers who want to shift from reactive planning to a profit-aligned inventory strategy may require a pragmatic roadmap that delivers early wins while building toward long-term outcomes. Retailers can start small, focusing on the most urgent pain points or the highest potential capabilities, and scale from there.

To begin, retailers should consider these key steps:

- 1. Conduct a diagnostic assessment.** Organize a discovery process so that you understand the current maturity of your inventory and planning strategies.
- 2. Build cross-functional alignment.** Align your finance, operations, and merchandising leaders on KPIs and trade-offs.
- 3. Develop a strategic roadmap.** Define a pragmatic path with early wins while building toward long-term outcomes.
- 4. Begin targeted pilots.** Start your transformation with a focused initiative, such as assortment optimization, cost-to-serve visibility, or demand planning accuracy.



**Many organizations haven't rationalized their technology to the extent needed. True business transformation requires a clear strategy and vision for how operations should use technology in the future, rigorous data cleansing to ensure a proper data set, and a commitment to having all capabilities — across process, tech, data, risk, and controls — work together under a joint vision."**

**Ioannis Boutaris**

Powered HR Oracle Director  
KPMG in the UK



## Powering retail profitability through inventory management transformation with KPMG and Oracle

Some retailers need more than just software to stay ahead of the industry's seismic shifts. They need systems that work together and the strategic expertise to align technology to business priorities. Oracle offers a platform designed for retail that connects merchandising, supply chain, and financial planning in a unified data model. This platform is enhanced with embedded AI and agentic automation, supporting real-time forecasting, optimized inventory placement, and scenario-driven planning.

KPMG firms provide deep industry expertise, transformation strategies, implementation services, and specialized retail advisory teams. From redesigning product hierarchies to integrating cross-functional planning, KPMG firms can help retailers achieve improved outcomes and sustainable, long-lasting change. This includes helping organizations integrate finance, operations, and supply chain data to uncover hidden costs and predict demand with greater accuracy. Together, KPMG firms and Oracle bring tools, structure, and experience to help retailers turn inventory management into a competitive advantage.

Ready to move from reactive planning to a profit-aligned inventory strategy? Explore where you are today — and what's possible tomorrow. [Learn more.](#)

## Contributors

### Ioannis Boutaris

Powered HR Oracle Director  
KPMG in the UK

### Marriam Kinny

Senior Product Marketing Director  
Oracle Retail

### Puneet Mansukhani

National Sector Head Retail and  
Head of Global Retail for Digital and  
Technology Transformation  
KPMG in India

### Michael Unger

Retail Transformation Leader  
Advisory Managing Director  
KPMG in the US

### Scott Wandel

Distinguished Solution Engineer  
Oracle

### Amanda Woodly

Senior Product Strategy Director  
Retail Planning and Analytics  
Oracle

[kpmg.com/oracle](https://kpmg.com/oracle)



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